SALT

Salt Sustainable Global Shares Fund Fact Sheet – July2023

Manager Profile

Salt Funds Management is a boutique investment management firm wholly owned by its employees which specialises in actively seeking to maximise returns while managing the risks of the investment. Salt examines investments for their environmental and social impact as well as the quality of their governance.

Investment Strategy

The Fund's investment objective is to outperform (after fees and expenses but before tax) the MSCI World (Net) Index in New Zealand dollars on a rolling three-year basis. To achieve this, the Fund targets a portfolio of global companies with high total return potential and high Environmental, Social and Governance (ESG) factor scores.

The strategy seeks to provide attractive long-term returns with less long-term volatility than the broader market by reducing the risks associated with poor ESG outcomes. The Fund will seek to achieve its investment objective by investing primarily in global equity.

Fund Facts at 31 July 2023

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	$59.19 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 31 July 2023

Application	1.1128
Redemption	1.1083

Investment Guidelines

The guidelines for the Sustainable Global Shares Fund are:

Global Equities	95% – 100%
Cash	0% – 5%

Target investment Mix

The target investment mix for the Salt Sustainable Global Shares Fund is:

Global equities	100%

Fund Allocation at 31 July 2023

Global equities	97.60%
Cash	2.40%

Fund Performance to 31 July 2023

Period	Fund Return*	Benchmark Return
1 month	0.17%	1.75%
3 months	5.19%	7.70%
6 months	13.60%	15.35%
1 year	9.19%	14.33%
Since inception p.a.	5.22%	7.61%
5 year*	12.18%	11.10%

Performance is after fees and tax, but not adjusted for imputation credits. Benchmark performance is gross. Past performance is not a guarantee of future results. Data as of 31 July 2023. *5 year strategy performance is gross of fees.

Fund ESG Scores	Portfolio	Index
Sustainable Global Shares	26T CO_2 /$m	162T CO_2 /$m
Portfolio Carbon Footprint:	15% of MSCI World Index*	

Source: MISM Quarterly Investment Report & Trucost based on the Scope 1 & 2 carbon emissions per $1million of Portfolio companies' sales, and as weighted average carbon intensity (WACI). *As of June 30, 2023, the Portfolio's carbon footprint was 85% lower than the MSCI World Index and 88% below AC World.

Top 10 holdings	
Microsoft (US)	Reckitt Benckiser (UK
Accenture (US)	Danaher (US)
SAP (DE)	Intercontinental Exchange (US)
VISA (US)	Constellation Software (CA)
Thermo Fisher Scientific (US)	Alphabet (US)

Source: MSIM, data as at 30 June 2023. The Top 10 Holdings represented 47% of the total portfolio.

Market Review

July month saw global continuing 2023's recovery trajectory. Expressed in NZD terms, global equities (MSCI World Index) returned 1.75% for the month (+3.4% in USD) with the differential reflecting volatility in the NZD/USD exchange rate, which continued into August. Global markets overcame uncertainty over economic slowing, still-elevated inflation and central bank policy responses and focused on now-lower recession probabilities.

- Market sentiment remained positive in July as developed market headline inflation rates continued to retreat and activity data continued to prove resilient. This continues to support the contention that inflation can be tamed without harming activity.

- Data in the US supported hopes for a soft landing. The June CPI came in below expectations at 3.0% y/y, though core inflation remains sticky at 4.8% y/y. GDP growth surprised to the upside at 2.4% (q/q annualised), though the weakest part of the cycle is still yet to come. The Federal Reserve raised its key policy rate by 25bp to 5.25-5.50% during the month, with markets signalling this as the likely peak in rates.

- The European Central Bank likewise raised their key deposit rate 25bp, taking it to 3.75%. The messaging was dovish however, probably

reflecting lower eurozone inflation and weakening activity data.

- Wage growth remains elevated in the UK with average earnings (ex-bonuses) rising 7.3% y/y. However, inflation came in lower than expected, driving a rally in Gilts. This is the first downside inflation surprise in a year. Markets have brought the expected peak policy rate down from 6.0% to 5.75%.

- Japanese inflation remained strong in June, with the Bank of Japan's preferred measure (CPI excluding fresh food and energy) rising to 4.2% y/y. Later in the month the BoJ further tweaked its Yield Curve Control policy by shifting from a rigid 0.5% upper limit on 10-year government bonds to a "reference point" of 1%.

- In China, June GDP data softened as expected, but the MSCI China Index is now back to a positive return year-to-date. This reflects some policy easing and likely, further stimulus to come.

- In Australia there is an ongoing battle between inflation that is slowing, but still too high, and the still tight labour market. The June quarter CPI came in below expectations at 6.0% y/y for the headline rate and 5.9% y/y for core (trimmed mean). The lower inflation data and softer activity growth saw the Reserve Bank of Australia pause on rate hikes at its July meeting, with markets at this stage still pricing in one more 25bp hike.

- New Zealand headline inflation came in at 6.0% y/y in the June quarter, down from 6.7% y/y in March. However, the more problematic non-tradeable measure came in at 6.6% y/y.

Portfolio Review

- In July, the Portfolio returned +0.17% (after fees), behind the MSCI World Net Index which returned +1.75%. The Portfolio is behind the index for the last six months, returning +13.60% (after fees) versus +15.35% for the gross benchmark return.
- The July month's underperformance was mainly due to stock selection, driven by weakness in Financials and to a lesser extent, Information Technology and Industrials. Whilst Health Care was a positive contributor, it was insufficient to compensate. Sector allocation was also mildly negative.
- The largest contributors to absolute performance during the month were Alphabet (+25 basis points [bps]), PayPal (+22 bps), ADP (+20 bps), Danaher (+18 bps) and Thermo Fisher Scientific (+14 bps).
- The largest absolute detractors in July were Equifax (-29 bps), Aon (-24 bps), Microsoft (-18 bps) and TSMC (-10 bps).

Portfolio Commentary & Outlook (Morgan Stanley Investment Management)

The MSCI World Index continued its 2023 climb, returning +3.4% USD in July, or +1.75% in NZ dollar terms, as the New Zealand dollar rose slightly over the month. Year to date, the Index has risen a remarkable 20.9% (NZD)

Many of us in the developed world live in an instant society where we can get what we want whenever we want. Although this makes our lives easier, there is a cost associated with having everything at our fingertips. The human brain is hardwired to crave dopamine – the happiness hormone. Today, this is easily provided by our smartphones.

There is evidence to suggest the ability to delay indulgence is linked to greater long-term success. In the context of investing, delayed gratification could mean resisting the urge to get swept up in the euphoria of a market bubble. For example, avoiding the growthier, more speculative stocks that rallied during the dot-com boom, and instead holding steady with an overweight to consumer staples (which had been significantly lagging), paid off in the dot-com crisis that followed from March 31, 2000 to October 31, 2002. Our focus on established, quality companies with earnings resilience, and the discipline to resist the urge to chase a short-term rally, has proved a better long-term outcome.

While society may be driven more by short-term impulses and immediate rewards, when it comes to investing, we would argue that patience leads to enduring results and positive long-term investment outcomes. For over 20 years, our team's investment approach has focused on identifying high quality companies that can compound and being patient enough to allow them the time to do so. We scrutinise companies' quality fundamentals and strong moats and are wise to short-term tactics that are counterproductive to long-term compounding.

At the end of 2021, we were worried about both multiples and earnings. Following the de-rating in 2022, our multiple anxieties faded, just leaving us worried about earnings. The last three quarters have put both concerns back on the table, with the MSCI World Index's forward earnings multiple back up to 17.0x, a level never reached between 2003 and 2019, while the multiple of the Information Technology sector at 27.4x is now worryingly close to its COVID highs.

This elevated multiple is not on depressed earnings, with expected margins still close to all-time peaks, and consensus earnings expected to be flat this year before rising 10% in 2024, despite all the worries about a potential recession. It is true that the U.S. economy has proved more robust than expected, but the downside of that is that labour markets remain very tight, meaning that a continued monetary squeeze is required to get inflation down.

Our view is that any resultant downturn is not in today's earnings expectations… or the current multiple. We maintain that the world is an asymmetric place, with earnings downsides in bad times far higher than the upsides in good times. Our bet, as ever, is that pricing power and recurring revenue, two of the key criteria for inclusion in our portfolios, will once again show their worth in any downturn, and the market will once again come to favour companies which have resilient earnings in tough times.

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